102D CONGRESS
1st Session

SENATE

EXEC. REPT.
102-14

NOMINATION OF LAWRENCE B. LINDSEY TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FROM THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

A REPORT

together with

ADDITIONAL VIEWS

AUGUST 29, 1991.—Ordered to be printed

Filed under authority of the order of the Senate of July 23, 1991

U.S. GOVERNMENT PRINTING OFFICE

49-119 WASHINGTON : 1991

S244-1

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DONALD W. RIEGLE, JR. Michigan, *Chairman*

ALAN CRANSTON, California
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee
TERRY SANFORD, North Carolina
RICHARD C. SHELBY, Alabama
BOB GRAHAM, Florida
TIMOTHY E. WIRTH, Colorado
JOHN F. KERRY, Massachusetts
RICHARD H. BRYAN, Nevada

JAKE GARN, Utah
ALFONSE M. D'AMATO, New York
PHIL GRAMM, Texas
CHRISTOPHER S. BOND, Missouri
CONNIE MACK, Florida
WILLIAM V. ROTH, JR., Delaware
PETE V. DOMENICI, New Mexico
NANCY LANDON KASSEBAUM, Kansas
JOHN H. CHAFEE, Rhode Island

STEVEN B. HARRIS, *Staff Director and Chief Counsel*
LAMAR SMITH, *Republican Staff Director and Economist*
PATRICK J. LAWLER, *Chief Economist*

CONTENTS

	Page
Committee action	1
Committee comments	2
Biographical sketch of nominee	4
Additional views of Senators Sanford, Riegle, Cranston, Sarbanes, and Sasser	15

102D CONGRESS
1st Session

SENATE

EXEC. REPT.
102–14

NOMINATION OF LAWRENCE B. LINDSEY TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

AUGUST 29, 1991.—Ordered to be printed

Filed under authority of the order of the Senate of July 23, 1991

Mr. RIEGLE, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

The Committee on Banking, Housing, and Urban Affairs, to which was referred the nomination of Lawrence B. Lindsey to be a member of the Board of Governors of the Federal Reserve System, reports favorably thereon and recommends that the nomination be confirmed.

COMMITTEE ACTION

The nomination of Lawrence B. Lindsey, of Virginia, to be a member of the Board of Governors of the Federal Reserve System for the unexpired term of fourteen years from February 1, 1986, vice Manuel H. Johnson, resigned, was submitted by President Bush to the Senate on February 28, 1991, and was referred to the Committee the same day. Mr. Lindsey testified before the Committee on May 7, 1991.

At its meeting on July 10, 1991, the Committee voted 16–5 to report the Lindsey nomination favorably to the Senate. Voting in favor of the nomination were Senators Garn, D'Amato, Gramm, Bond, Mack, Roth, Domenici, Kassebaum, Chafee, Dodd, Dixon, Shelby, Graham, Wirth, Kerry, and Bryan. Voting against the nomination were Senators Riegle, Cranston, Sarbanes, Sasser, and Sanford.

COMMITTEE COMMENTS

Mr. Lindsey has had a distinguished academic and professional background that qualifies him for the Federal Reserve nomination. He graduated magna cum laude from Bowdoin College in 1976. In 1981 he earned a Masters Degree in Economics from Harvard University and received his Ph.D. in Economics four years later. His Doctoral Dissertation received the National Tax Association's Outstanding Thesis Award for that year. Mr. Lindsey served three years, 1981–1984, at the Council of Economic Advisors under Chairmen Murray Weidenbaum and Martin Feldstein where he became Senior Staff Economist for Tax Policy. Mr. Lindsey joined the Harvard economics faculty in September 1984 and was promoted to Associate Professor in 1988. In January 1989, he joined the Bush Administration as Associate Director for Domestic Economic Policy in the White House Office of Policy Development. In January 1990, he was commissioned as a Special Assistant to the President for Domestic Economic Policy. Mr. Lindsey is the author of more than 40 publications on economic policy as well as a book, "The Growth Experiment," published last year.

In approving the nomination, the Committee found that Mr. Lindsey met the qualifications and residency requirements required by law of all Federal Reserve nominees. The law requires "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographic divisions of the country."

With respect to the residency requirement imposed by law, Mr. Lindsey has lived in the Fifth District for a total of five and a half years. He and his wife own a home in Clifton, Virginia where they have lived since Mr. Lindsey returned to join the Bush Administration. They have also resided in Arlington, Virginia. They own no real estate or personal property in any other state and vote, pay taxes, and register their cars in Virginia. Mr. Lindsey was commissioned from Virginia as an officer in January 1990, when he was named Special Assistant to the President.

The Committee majority shares President Bush's view that Mr. Lindsey is qualified to serve as a Federal Reserve Governor. Senator John Warner of Virginia testified to the Committee, "Lawrence Lindsey will make a great contribution as a Governor of the Federal Reserve, and I endorse his nomination." Senator Daniel Patrick Moynihan concurred, stating, "The breadth and depth of Dr. Lindsey's knowledge, his skills and abilities make him, in my estimation, an ideal candidate for the Board of Governors." Stuart Eizenstat, Domestic Policy Advisor to President Jimmy Carter wrote, "I cannot think of a better fit between job and person than [Larry Lindsey] at the Fed—particularly at this difficult time."

During his confirmation hearing, Mr. Lindsey cited three goals which he would seek as a Governor on the Federal Reserve Board. First, he would strive to ensure economic recovery and a regulatory stance which does not unnecessarily restrict credit conditions. Second, Mr. Lindsey believes that the Federal Reserve must play a guiding role in the reform of the nation's financial system in order

to meet the challenges of the global marketplace of the 21st century. Third, as there is no long term tradeoff between higher economic growth and lower inflation, Mr. Lindsey feels that the Federal Reserve should gradually reduce the rate of inflation so that the nation may come to enjoy the long term benefits of price stability.

As a nominee, Mr. Lindsey combines academic and practical economic policy experience. Mr. Lindsey is an objective and pragmatic economist who will make decisions based on a balanced review of the best available evidence and not on preconceived notions or ideological views. For example, his book, "The Growth Experiment," has received favorable review from all points of the political spectrum. It was favorably reviewed in both the New Republic and National Review, as well as numerous business publications and was cited in a report on the family published by the Progressive Policy Institute, "Putting Children First: A Progressive Family Policy for the 1990s." Lindsey's doctoral thesis, which formed the basis for the analysis in his book, received the Outstanding Doctoral Dissertation Award from the National Tax Association, the oldest and most respected tax research organization in the country. His work has also received the Wriston/Citicorp award.

The majority recommends strongly that the full Senate confirm the President's nomination of Lawrence B. Lindsey to the Federal Reserve Board.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Lindsey (LAST) Lawrence (FIRST) Benjamin (OTHER)

Position to which nominated: Governor, Federal Reserve System Date of nomination:

Date of birth: 18 (DAY) 7 (MONTH) 54 (YEAR) Place of birth: Peekskill, New York

Marital status: Married Full name of spouse: Susan Ann (McGrath) Lindsey

Name and ages of children:

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Bowdoin College	1972-1976	A.B.	1976
Harvard University	1977-1981	M.A.	1981
Harvard University	1984-1985*	Ph.D.	1985

*During that academic year I was on the faculty as an instructor, pending completion of my dissertation. I was not an enrolled student.

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Citicorp/Wriston Fellow for Economic Research, 1988.

Outstanding Doctoral Dissertation Award, National Tax Association, 1985 for Simulating the Response of Taxpayers to Changes in Tax Rates.

Noyes Prize in Political Economy, Bowdoin College, 1976.

Elected to Phi Beta Kappa, Alpha of Maine, 1975.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Phi Beta Kappa		1975-present
National Tax Association	Federal Taxation & Finance Comm.	1986-1989
National Tax Association		1984-present
American Economics Assoc.		1983-present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Special Assistant to the President for Policy Development
The White House, 1/90 - present

Associate Director for Domestic Economic Policy, Office of Policy Development, The White House, 1/89 - present

Associate Professor, Economics, Harvard University, 7/88 (on leave) - pres.

Assistant Professor, Economics, Harvard University, 6/85-6/88

Instructor, Economics, Harvard University, 9/84-5/85

Faculty Research Fellow, National Bureau of Economic Research, 9/84-1/89

Senior Staff Economist for Tax Policy, Council of Economic Advisers, 7/83-8/84

Staff Economist, Taxation, Council of Economic Advisers, 9/82-6/83

Junior Staff Economist, Public Finance, Council of Economic Advisers, 9/81-6/82

Teaching Fellow, Harvard University, 9/78-8/81

Research Assistant, National Bureau of Economic Research 6/78-8/81

Employment Record continued-

Teacher Aide for the Learning Disabled, Lakeland School district, New York, 1/77-6/77

Salesperson, Gazelle Products, Waterville, Maine, 9/76-12/76

Owner/Operator, The Hot Dog Stand, Bath, Maine, Summers 1975 and 1976.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Special Assistant to the President for Policy Development

The White House

Associate Director for Domestic Economic Policy, Office

of Policy Development, The White House

Senior Staff Economist for Tax Policy, Council of Economic

Advisers

Staff Economist, Taxation, Council of Economic Advisers

Junior Staff Economist, Public Finance, Council of Economic Advisers

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Please see attachment

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member, Wayland Town Republican Committee, Wayland, MA

1985-89

Chairman, 1988-89

PUBLICATIONS

The Growth Experiment: How the New Tax Policy Is Transforming the U.S. Economy. Basic Books, Inc., New York, 1990.

"Managing the Variability of the Social Security System With the Personal Income Tax", in Weaver (ed.) Social Security's Looming Surpluses, American Enterprise Institute, 1991 (forthcoming).

"The University and the Reemergence of Economic Individualism", in Hanson and Meyerson (ed.) Higher Education in a Changing Economy, American Council on Education, 1990.

"Did New York's Tax Cuts Work?" NY: The City Journal, Autumn 1990 with Ed Rubenstein.

"Let's Push Now for Capital Gains Tax Cut," USA Today, September 21, 1990.

"Envy is No Basis for Tax Policy," The Washington Post, March 20, 1990.

"It's Time for Another Cut in Tax Rates," Forbes, March 5, 1990, pp. 82-86.

"Tax Induced Trading: The Effect of the 1986 Tax Reform Act on Stock Market Activity" The Journal of Finance with Paul J. Bolster and Andrew Mitrusi, June 1989.

"Budget Neutral Options to Encourage Charitable Giving", in The Future of the Nonprofit Sector, Jossey-Bass, 1989.

"The Massachusetts Miracle", Regulation, December 1988.

"High Risks, High Rewards", Currents, November/December 1988, pp.10-15.

"Massachusetts Miracle -- or Mirage?" The New York Times, October 5, 1988, p.A33.

"Turning Deficit into Surplus" The Boston Herald, October 2, 1988, pp.23-26.

"Supply Side Lessons for Deficit Reduction" Business Economics: The Journal of the American Association of Business Economists, October 1988.

"Better Child Care Cheaper," The Wall Street Journal, July 5, 1988.

"Socialism and the Supply Side in Sweden", The Wall Street Journal Europe, June 6, 1988.

"Who Managed the Massachusetts Miracle?" The Wall Street Journal, April 5, 1988.

"The Guru of Tax Cuts" The Sunday Times (London), March 20, 1988.

"Capital Gains" Tax Notes, January 25, 1988 with Jane Gravelle.

"Tax Cuts and Taxpayer Behavior: Alternative Explanations of Income Changes in the 1980s" in Tax Policy and the Economy Vol 2, Lawrence Summers (ed.) National Bureau of Economic Research, 1988.

"Cut Capital Gains Taxes" The Journal of Commerce, December 29, 1987.

"The Wrong Two Percent Solution" The Journal of Commerce, November 19, 1987.

"Estimating the Behavioral Response of Taxpayers to Changes in Tax Rates: 1982-1984 With Implications for the Revenue Maximizing Tax Rate" Journal of Public Economics July 1987.

"Federal Deductibility of State and Local Taxes: A Test of Public Choice by Representative Government", in Rosen (ed.) Fiscal Federalism, National Bureau of Economic Research: Cambridge", 1987.

"Capital Gains Taxes Under the Tax Reform Act of 1986: Revenue Estimates Under Various Assumptions", National Tax Journal, September, 1987.

"Capital Gains Rates, Realizations, and Revenues" in The Effects of Taxes on Capital Accumulation, edited by Martin Feldstein, pp.69-97, University of Chicago Press, 1987.

"Criticizing the CBO Analysis of ERTA's Effect on the Distribution of Income and Taxes", Tax Notes, May 4, 1987, pp.491-496.

"Individual Giving Under the Tax Reform Act of 1986", in The Constitution and the Independent Sector, Independent Sector and United Way Institute: Washington, March 1987.

"Rates, Realizations, and Revenue of Capital Gains" in Taxes and Capital Formation, edited by Martin Feldstein, Chicago: University of Chicago Press, 1987.

"Gifts of Appreciated Property: More to Consider" Tax Notes, January 5, 1987, pp.67-70.

"Revenue Response to the 1982 Personal Tax Cuts -- A Reply", Tax Notes, October 13, 1986.

"Misguided Capital Gains Levy" Wall Street Journal, September 10, 1986.

"Capital Gains Tax Rates and Tax Revenues", Testimony before the Senate Small Business Committee, The Congressional Record, June 4, 1986.

"Lessons of the 1981 Tax Cut", The Wall Street Journal, May 6, 1986.

"Tax Reform and Charitable Giving" in Philanthropy, Voluntary Action and the Public Good, Independent Sector and United Way Institute, March 1986.

"Revenue Response to the 1982 Tax Cuts", Tax Notes, March 17, 1986.

"The Effect of the President's Proposal on Charitable Giving", The National Tax Journal, March 1986.

"The 1982 Tax Cut: The Effect of Taxpayer Behavior on Revenue and Distribution" Proceedings of the National Tax Association, November 1985.

"Giving and Tax Cuts: Recent Experience" Tax Notes, September 16, 1985.

"Tax Reform and Charitable Giving", Testimony before the House Committee on Ways and Means, The Congressional Record, July 22, 1985.

"Simulating Non-Linear Tax Rules and Non Standard Behavior: An Application to the Tax Treatment of Charitable Contributions", Behavioral Simulation Methods in Tax Policy Analysis, edited by Martin Feldstein, University of Chicago Press, 1983.

"Alternatives to the Maximum Tax on Earned Income", Behavioral Simulation Methods in Tax Policy Analysis, edited by Martin Feldstein, University of Chicago Press, 1983.

"Is the Maximum Tax on Earned Income Effective?" National Tax Journal, June 1981.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes. Resignation from Harvard effective upon confirmation. My current employment with the Executive Office of the President also terminates upon the start of my employment at the Federal Reserve

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

None

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Qualifications

I believe that my career as a professional economist has provided me with the tools, background, and insights necessary to make a significant contribution to the country as a Governor of the Federal Reserve System. I have been fortunate to have been able to participate in the formation of economic policy in two Administrations as well as conduct academic research and develop a university curriculum based on contemporary economic thought and policy.

As Special Assistant to the President for Policy Development, I have been responsible for developing policy and analyzing the range of microeconomic and macroeconomic issues facing the country today. In recent months, my primary mission has been to work with the Department of Treasury in developing a comprehensive banking and financial services reform package. This has exposed me to the cutting edge of thinking and policy creation in this important area of Federal Reserve responsibility. My three years on the staff of the Council of Economic Advisors and two years at the Office of Policy Development have provided me with a broad exposure to the process of policy formation in two Administrations.

My four and one half years on the faculty of Harvard University involved both research on key public policy issues and the development of comprehensive academic curriculum. The latter included the creation of a course on American Economic Policy with particular emphasis on the effects of monetary and fiscal policy. My academic research has been published in leading economic journals including the Journal of Finance and the Journal of Public Economics as well as in research volumes sponsored by the American Enterprise Institute and the National Bureau of Economic Research. This research has led to awards from both the National Tax Association and the Citicorp/Wriston Fellowship.

I believe that this combination of academic and practical experience in the realm of public policy qualifies me to meet the intellectual and decision making challenges faced by a Governor of the Federal Reserve System.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None, except employment

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

"Capital Gains Tax Rates and Tax Revenues". Testimony before the Senate Small Business Committee, The Congressional Record, June 4, 1986

"Tax Reform and Charitable Giving." Testimony before the House Committee on Ways and Means, The Congessional Record, July 22, 1985

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will make any divestment, as required; and alter or sever any relationships, as required.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

ADDITIONAL VIEWS OF SENATORS SANFORD, RIEGLE, CRANSTON, SARBANES, AND SASSER

We voted against Mr. Lindsey's nomination because we believe that he does not meet the qualifications for members of the Board of Governors of the Federal Reserve System specified in the Federal Reserve Act. We also believe that Mr. Lindsey lacks the depth and breadth of experience and the realistic appreciation of the problems of the U.S. economy that are needed on the Board of Governors at this time.

I. Over-representation of the First Federal Reserve District

The law setting forth the qualifications for appointment to the Board of Governors of the Federal Reserve System is contained in Section 10 of the Federal Reserve Act:

> In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve District, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. (12 U.S.C. 241.)

It is quite clear from the legislative history of the Federal Reserve Act that those involved in the establishment of the Federal Reserve System were very concerned about the distribution of power on the Board. At the time the Senate debated passage of the Federal Reserve Act, Senator Swanson, a member of the Senate Banking Committee, in defending the composition of the Federal Reserve Board, noted:

> I am satisfied that a better system of appointment could not be devised, and I am satisfied that the Federal Reserve board when constituted will wisely, faithfully, fearlessly, and patriotically discharge the duties conferred upon them to the benefit of the country and without favoritism to any. Congressional Record, Vol. 50, Part 1, p. 5933, November 17, 1913.

In expressing views prior to the enactment of the Federal Reserve Act, Senator Newlands of Nevada, also a member of the Senate Banking Committee, outlined his vision of what was needed to meet the concerns of many. He stated:

> I would then federalize these State reserve associations through the organization of a national banking board, of which a certain proportion of the members should be selected by the national reserve associations under some plan that would promote proper geographical distribution.

Congressional Record, Vol. 51, Part 1, p. 431, December 8, 1913.

In taking into account these concerns about the need for adequate geographical distribution of power on the Board of Governors, the Congress devised a structure with 12 Federal Reserve Districts in the country. A map outlining these districts follows these views. It also expressly prohibited membership on the Board of more than one person from any one Federal Reserve district.

Mr. Lindsey's nomination, in our view, is not consistent with these requirements. A fair reading of Mr. Lindsey's background, education and work experience quite clearly shows that he does not add any geographic diversity to the Federal Reserve Board. Mr. Lindsey's primary associations lie clearly in the First Federal Reserve District. That district includes the state of Maine, where Mr. Lindsey spent four years while attending college, and the state of Massachusetts, where Mr. Lindsey has spent half his entire professional life. He attended graduate school for his masters degree and Ph.D. in Massachusetts and went on to spend 4½ years teaching at a school there, from which he is still on leave.

However, currently serving on the Board of Governors is John LaWare, who was nominated and confirmed as a representative of the First Federal Reserve District. Mr. LaWare was a life-long resident of that district, and served as chief executive officer of a bank holding company in Boston. Another current Board member, David Mullins, also has strong ties to the First District, where he was a professor for many years, also at Harvard.[1]

The Second District is represented by Chairman Alan Greenspan, a nearly life-long resident of New York. Mr. Lindsey was born and grew up in New York State, which is in that district.

II. Not a Fair Representative of the Fifth District

In addition to our concerns that Mr. Lindsey would become, in effect, a second representative of the First District is our belief that Mr. Lindsey is not a fair representative of the Fifth Federal Reserve District, from which he was nominated. The Fifth Federal Reserve District is comprised of North Carolina, South Carolina, Maryland, Virginia, the District of Columbia and parts of West Virginia. His only connections with the Fifth Federal Reserve District have been during the three years he was on the staff of the Council of Economic Advisers in the early 1980s, and during the most recent two and a half years while serving in the White House.

Mr. Lindsey, by his own admission during his confirmation hearing, has engaged in no significant economic activity in the Fifth Federal Reserve District other than living in a D.C. suburb, where he owns a house. His activities while living in Virginia have been solely working in the District of Columbia on policy issues for the White House, not engaging in any broad based activity that would give him contacts with or close knowledge of the business community or the financial communities of the Fifth District.

---

[1] He was nominated as a representative of the Eighth Federal Reserve District, on the basis that he grew up, attended college, has family, personal relations, and maintains property in Arkansas. A third current Governor, Edward Kelley, attended Harvard, as did Mr. LaWare.

We do not believe that the Federal Reserve Act should be interpreted to be a mere residency requirement. It is not sufficient to have lived, however briefly, in the District from which one is nominated. A nominee must be able to speak for and have close knowledge of the economic life of the District. Mr. Lindsey does not and cannot fairly be said to represent the interests of the Richmond Federal Reserve District.

Nor does Mr. Lindsey improve the representation of "financial, agricultural, industrial, [or] commercial interests," as called for in the statute. Mr. Mullins taught at Harvard while Mr. Lindsey taught there, and Mr. Greenspan served as Chairman of the Council of Economic Advisers for 4 years. In sum, Mr. Lindsey would be the fourth Board member (of six) from the Northeast, and the third whose last non-governmental job was in Boston. His work experience would be overlapped by that of other members.

Moreover, a look at the Federal Reserve nominees over the past decade indicates that the Congress and the President have taken seriously the geographic mandates of the statute in nominating and confirming members of the Board of Governors of the Federal Reserve. We believe this record is an appropriate precedent that we should continue to observe.

III. Lack of Broad Experience

In addition to our concerns about Mr. Lindsey's lack of contribution to the geographical or economic diversity of the Federal Reserve Board are our concerns about the depth and breadth of experience that Mr. Lindsey would bring to the Federal Reserve Board. Mr. Lindsey is a 37 year old economist. He finished his Ph.D. in 1985, spent the next three years teaching, and has spent the last two years on the staff of the White House. He is the youngest ever to be nominated to the Federal Reserve Board and brings to the position a fairly narrow background and few, if any, contacts with the business or financial community.

At a time when the country is going through very difficult economic times, with more than 8 million Americans out of work, and with questions coming on all fronts about the direction our economy is headed, we are troubled at the prospect of putting on the Federal Reserve Board someone with no "hands on" experience.

We fear that Mr. Lindsey is likely to bring a narrow and academic view of the economy to the Board. He was specifically asked during his confirmation hearing who he would turn to if he wanted to get a sense of what was really going on in the private sector and in the business community and his response was, "Well, I think that I would call on academic economist friends of mine who have worked for business organizations." At a time when the Federal Reserve needs to be in close touch with what is truly going on in the economy and the lives of workers and business people across the country, we find that response quite troubling.

While we might place less emphasis on these factors if Mr. Lindsey came to this position with truly unique and perfectly suited skills for the Board, we do not believe that he does. Indeed, his academic work has been almost entirely in the area of tax policy—not the monetary policy issues that the Federal Reserve Board regular-

ly considers. Most of his writings have focused on promoting a capital gains tax and studies supporting the Reagan tax cuts of the early 1980s. Whatever the merit of those studies may be, we do not believe that they make Mr. Lindsey well qualified for the Federal Reserve Board.

IV. Narrow Economic Views

Finally, our concerns over the appointment of Mr. Lindsey to the Board of Governors rest also with his views on the economy and the relationship between tax policy and monetary policy.

Just last year, Mr. Lindsey wrote a provocative book in which he makes a number of claims with which we take strong exception. Mr. Lindsey states, for example:

> Its effects [supply-side policy] have made the U.S. once again the leader of the world economy. "The Growth Experiment," p. 4.
>
> [T]he Reagan tax cuts contributed only trivially to the booming deficits of the 1980s. p. 11.
>
> The Reagan boom was distinguished by an especially rapid growth in business investment. p. 11.
>
> The recovery of the eighties was not launched on a sea of red ink. Americans are not, as Reagan critics claim, in debt up to their ears. Their financial positions improved quite substantially * * *. p. 11.
>
> The country has exchanged economic peril for economic prosperity * * * Those days [the late 1970s] of constant crisis are gone, largely because the large tax rate cuts for upper-income and upper middle-income taxpayers restored the incentives that drive the American economy. p. 150.

We are quite concerned about the implications of these statements. They reflect, in our view, a gross distortion of the truth and a willingness to look at economic data through a particular set of rosy glasses. At a time when the economy of this country is in a considerable state of flux, we believe that we must have on the Board individuals who are willing to look openly and honestly at the condition of our economy, and who are willing to take steps to ensure economic prosperity for all Americans, not just for the wealthy few.

We are equally troubled by what these views say about the methods for resolving our current fiscal and economic troubles. Contrary to Mr. Lindsey's statements, we believe that many of the economic woes and the recession we have been experiencing are the direct result of the excesses of the 1980s, including the large 1981 Reagan tax cut, the significant increase in defense spending, and the expansive fiscal policy of the 1980s.

Moreover, we believe that fundamental problems in our economic sector can be traced to a lack of investment in infrastructure, both by the government and the private sector. We do not see the tremendous growth in business investment that Mr. Lindsey does. Indeed, we are concerned by what the record shows to be a very significant drop in net business investment as a percent of GNP. Our net business investment over the past decade has averaged

barely 2% of GNP, compared with average levels closer to 4% during the previous 3 decades.

Our concerns are also raised by the fact that corporations increased their borrowings dramatically during the 1980s, replacing more than half a trillion dollars of equity with debt. This massive increase in leveraging was brought on by the hostile takeover craze, the junk bond phenomena, and other activities in the securities markets that were largely overlooked by federal authorities but had a significant impact on American business and its competitiveness. We are concerned that the need to service extraordinary debt levels has contributed to the recession last year and this year, and diminishes our prospects of recovery.

We are also concerned about Mr. Lindsey's view that the economy is on the right track and that the 1981 tax cuts have made the U.S. once again the leader of the world economy. Mr. Lindsey makes such statements despite the fact that in 1982, the United States was the world's largest creditor, with net foreign investment of $258 billion, yet just eight years later had become the world's largest debtor, with a negative foreign investment balance of $360 billion.

Finally, to the extent that Mr. Lindsey's writings touch on monetary policy, we are disturbed by his belief that tax cuts, more than monetary policy, have been responsible for bringing inflation down. At great economic and social cost, the Federal Reserve succeeded in reducing inflation from double digit rates in 1981 to a range of 3 to 4 percent in subsequent years by raising and holding up interest rates long enough to induce a major recession. Despite Mr. Lindsey's claims to the contrary, interest rates finally fell because the Federal Reserve ultimately responded to the serious deterioration of the economy and the sharply lower inflation rates. Inflation slowed because the economy slowed first, making it costly for workers and firms to continue raising wages and prices as rapidly.

Mr. Lindsey's analysis is especially troubling given the difficulties facing our economy. Because of our tremendous budget deficits, overleveraging in the private sector and a weakened financial services system, the Federal Reserve faces tough decisions. Indeed, in the recent past our monetary policy has been too restrictive, and the Federal Reserve has been too slow to react to changes in the economy that signalled recession.

We are very concerned about the debilitated state of our economy, generally, and particularly the plight of the unemployed, and there is a danger that misjudgements by the Fed may hinder needed economic improvement. We believe that a Federal Reserve appointee should show evidence of a more balanced understanding of the role and power of monetary policy.

Conclusion

Because we do not believe that Mr. Lindsey fairly meets the geographical and economic representation requirements for the Board of Governors of the Federal Reserve and because we are troubled by his views of the economy, of where the nation is heading and of the role that monetary policy can and should play in setting our economic agenda, we oppose the confirmation of Mr. Lindsey to be

a member of the Board of Governors and urge our colleagues to vote against his confirmation.

TERRY SANFORD.
DONALD W. RIEGLE, Jr.
ALAN CRANSTON.
PAUL SARBANES.
JIM SASSER.

○